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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of

Access Charge Reform

CC Docket No. 96-262

Price Cap Performance Review

CC Docket No. 94-1

OFFICE OF THE SECRETARY

for Local Exchange Carriers

Transport Rate Structure
and Pricing

CC Docket No. 91-213

End User Common Line Charges CC Docket No. 95-72

## COMMENTS OF AMERITECH IN RESPONSE TO FURTHER NOTICE OF PROPOSED RULEMAKING

Ameritech<sup>1</sup> submits these comments on the Commission's further notice of proposed rulemaking in the above captioned proceeding.<sup>2</sup> In the FNPRM, the Commission solicits comments on two proposals -- first, its proposal to permit carriers to assess a primary interexchange carrier charge ("PICC") on special access lines to recover revenues for the common line basket and, second, its

<sup>&</sup>lt;sup>1</sup> Ameritech means: Illinois Bell Telephone Company, Indiana Bell Telephone Company, Incorporated, Michigan Bell Telephone Company, The Ohio Bell Telephone Company, and Wisconsin Bell, Inc.

<sup>&</sup>lt;sup>2</sup> In the Matter of Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Transport Rate Structure and Pricing, End User Common Line Charges, CC Docket Nos. 96-262, 94-1, 91-213, 95-72, First Report and Order and Further Notice Of Proposed Rulemaking, FCC 97-158 (released May 16, 1997) ("FNPRM").

proposal to assign a general support facility ("GSF") investment and expense to the Other Billing and Collection ("OB&C") category.<sup>3</sup>

I. THE COMMISSION'S RULES SHOULD NOT REQUIRE THE RECOUPMENT OF A LOCAL EXCHANGE CARRIER'S OWN NONTRAFFIC SENSITIVE LOOP-RELATED COSTS THROUGH AN ASSESSMENT ON SPECIAL ACCESS SERVICES.

Because of other rate structure and cost recovery changes implemented by the Commission in the FNPRM, the subscriber line charge ("SLC") on mulitiline businesses will probably increase. In addition, as PICCs are introduced, interexchange carriers ("IXCs") will be required to pay higher charges for their multiline business end user customers. This combination could cause a significant additional incentive for end user customers and IXCs to reconfigure their services to utilize less switched access and more special access services. To counteract that incentive, the Commission has proposed to permit price cap LECs to assess a PICC on special access lines to recover revenues for the common line basket (but not the transport interconnection charge ("TIC") or marketing expense). The special access PICC would be no higher than the PICC that could be charged for a multiline business line.

Ameritech opposes any <u>requirement</u> for carriers to recoup their own common line and related (*e.g.*, loop port) costs via a charge on special access lines.

This would merely create a new intracompany, interservice subsidy that would

<sup>&</sup>lt;sup>3</sup> Id. at ¶¶397-418.

burden some of the LECs' most competitive services. While the assessment of higher PICCs and SLCs on multiline business services <u>might</u> discourage a migration of LEC customers to special access services, the assessment of additional charges on special access services might also simply encourage a migration of LEC customers to the services of competitors. Moreover, there would likely be substantial administrative costs to establish and bill PICCs on special access services, and a LEC might legitimately decide that the cost burden is not outweighed by any benefits to be gained by assessing a charge that the Commission acknowledges "is temporary in nature and will be phased out as the single-line PICC is phased in."

On the other hand, Ameritech does not oppose the Commission's proposal to <u>permit</u> LECs to implement such a mechanism,<sup>5</sup> provided that LECs are not penalized (e.g., via a mandatory index reduction for other rate elements) if they choose not to implement such a mechanism. Individual LECs could then make the determination whether implementing the subsidy would have an adverse competitive effect and whether the implementation costs would be outweighed by the benefits.

<sup>&</sup>lt;sup>4</sup> Id. at ¶404. Ameritech, however, would not object to a rate structure that assesses special access services with an appropriate share of the cost of a carrier's general universal service obligations (e.g., contributions to the federal high cost fund).

<sup>&</sup>lt;sup>5</sup> FNPRM at ¶403.

II. A MODIFICATION OF PART 69 WOULD BE THE APPROPRIATE METHOD TO CORRECT AN UNDERALLOCATION OF GENERAL SUPPORT FACILITIES AND INVESTMENT AND EXPENSE TO OTHER BILLING AND COLLECTION.

In the FNPRM, the Commission notes that, because of its prior rulings, no general purpose computer costs have been assigned to the OB&C.<sup>6</sup> However, AT&T's estimate -- carefully timed to coincide with its strategic decision to migrate away from LEC billing and collection services -- is overstated because it assumes that the misallocation applies to the entirety of the general support facilities ("GSF") summary account 2110, as opposed to only the account for general purpose computers, Account 2124.

While Ameritech does not object to the reallocation if properly done, it should be clear that no downward adjustment to price cap indexes associated with interstate rates should result. This cost change, like the change in the booking of other post-employment benefit ("OBEP") expenses, is a "non-economic" cost change which should not be given "exogenous" index treatment.<sup>7</sup> As the Commission has found:

Thus, we find no public interest argument for changing the LEC's PCI in response to an accounting change that does not affect cash flow.<sup>8</sup>

<sup>&</sup>lt;sup>6</sup> Id. at ¶412.

<sup>&</sup>lt;sup>7</sup> See, In the Matter of Price Cap Performance Review for Local Exchange Carriers, CC Docket No. 94-1, First Report and Order (released April 7, 1995), 10 FCC Rcd. 8961, ¶¶292-313.

<sup>&</sup>lt;sup>8</sup> Id. at ¶296.

Like the historical "pay-as-you-go" treatment of OPEB expenses, the current allocation of general purpose computer investment and expense was embedded in access rates prior to price caps. Nonetheless, the Commission has specifically found that changing the booking of those OPEB expenses to an accrual basis is not an economic cost change and does not justify exogenous cost adjustment to price cap indexes. Similarly, a reallocation of general purpose computer investment and expense to OB&C, which does not result in any economic cost change, does not justify a price cap index adjustment.

In addition, if the Commission were to require index adjustments at this time, it would have to permit further adjustments later as the allocation changes. As noted above, AT&T has decided to migrate away from LEC billing and collection services. This and other market developments means that current allocations are not likely to be stable in the long run. Requiring index adjustments with the initial reallocation, therefore, would just be introducing an element of instability into LEC access rates and should be avoided.

To deal with this underallocation, the Commission has proposed two different mechanisms. First, the Commission proposes that a special study be conducted to determine the percentage of investment in Account 2124 (general purpose computer investment) that is used for billing and collection activities. That ratio, multiplied by the ratio of the dollar amount in Account 2124 to the

<sup>&</sup>lt;sup>9</sup> Id. at ¶309.

dollar amount in account 2110, which accumulates total GSF investment, would be applied to the interstate portion of account 2110 to determine a dollar amount that represents general purpose computer assets used for interstate billing and collection activities. The remainder of the interstate portion of that account would be apportioned among the access elements using current investment allocators. Expenses would be treated similarly, with downward exogenous costs adjustments being made to all price cap baskets. In addition, "Interstate Billing and Collection" would be added as a new section to a price cap LEC's cost allocation manual.

Ameritech does <u>not</u> support this "Part 64" option. The Commission speculates that price cap LECs may already be required to study the use of computer investment in Account 2124 as part of the process of allocating joint investment between regulated and nonregulated activities pursuant to Part 64 of the Commission's own rules. <sup>10</sup> However, in Ameritech's case, no special study of computer investment is performed. Rather, these costs are apportioned on the basis of indirect attribution (using salary and wages). In addition, it would be inappropriate to use a Part 64 special study -- traditionally used pre-separations -- to determine the allocation of amounts that have already flowed through the separation process. Finally, special studies are expensive and difficult to perform and should not be required where other reasonable alternatives exist.

<sup>&</sup>lt;sup>10</sup> Id. at ¶416.

Instead, Ameritech favors a variation of the Commission's second proposal. That option involves the modification of §69.307 of the Commission's rules to require the use of a general expense allocator to allocate the interstate portion of account 2110 between OB&C and all other elements and categories. Specifically the Commission proposes the use of the "Big Three Expense" allocator, excluding any account or portion of an account that is itself apportioned based on the apportionment of GSF to avoid circularity.

This proposal, however, should be slightly modified because it results in an overallocation to OB&C. Instead, the Commission rules should require an allocation of the interstate portion of Account 2124 (general purpose computers only) investment to the billing and collection category based on the results of the "Big Three Expense" allocator in Part 69. The remaining GSF investment (account 2110) not allocated to OB&C would be distributed to the other appropriate access elements and categories in the usual manner described in subsection 69.307(c). (There should be no additional allocation of the remaining GSF to OB&C.) Since it is the underallocation of general purpose computer investment that is the source of the current underallocation, it is that subaccount that should be the focus of the reallocation.

In light of the foregoing, the Commission should modify the allocation of GPC investment and expenses to OB&C by using the "Big Three Expense" allocator to the interstate portion of Account 2124 and to treat the associated expense in accordance with current procedures, reflecting the revised distribution of investment to OB&C. No price cap index adjust is required.

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## **CERTIFICATE OF SERVICE**

I, Todd H. Bond, do hereby certify that a copy of the foregoing Comments of Ameritech In Response to Further Notice of Proposed Rulemaking has been served on the parties on the attached service list, via first class mail, postage prepaid, on this 26th day of June, 1997.

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